Economic Trends

Alberta economy continues to struggle

Alberta's economy continues to adjust to lower oil prices. Although costs are coming down, business output remains diminished. Despite oil production increases, lower oil prices continue to weigh on the value of exports. Households are curtailing spending as employment and earnings have declined. There are some signs of hope, however, as oil prices have strengthened since falling to a 12-year low in February. This month's inFocus explores the 2015 contraction in real GDP by industry for Alberta.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	April	2,276	-1.8%
Unemployment Rate	April	7.2%	+1.6 p.p.
CPI Inflation (unadjusted)	April	1.5%	+0.8 p.p.
Retail Sales	March	$6.1 B	-3.8%
Housing Starts (annualized)	April	29,400	-7.2%
Rigs Drilling (unadjusted)	May	25	-50.3%
Manufacturing Shipments	March	$4.9 B	-15.3%
Exports (unadjusted)	March	$5.8 B	-26.1%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Labour market difficulties persist

Weak economic conditions in Alberta are maintaining downward pressure on the labour market. Strong job gains in March were completely wiped out as April saw job losses totaling 20,800. This left employment down 1.1% year-to-date (YTD) and the unemployment rate hovering above 7%. The ongoing weakness in the labour market has caused the number of regular Employment Insurance (EI) beneficiaries to more-than-double over the past eighteen months, reaching 67,600 in March 2016. Job losses in the high paying oil and gas sector have weighed on average weekly earnings, which have fallen 3.6% since peaking in January 2015.

Households hit by downturn

Tough labour market conditions are weighing on Alberta households. Consumers continue to pull back on spending. Retail sales fell for the past four months ending in March, with first quarter sales down 1.1% year-over-year (y/y). Spending was weak on a variety of consumers goods. Lower gasoline prices pulled down gas station reciepts, which was a major drag on retail sales. An uptick in the number of consumer bankruptcies in March suggests that households are under more financial stress; however, the level of bankruptcies is still far below the record set in 2009.

Housing market weak

Housing activity remains sluggish in the province despite some signs of improvement recently (Chart 1). After falling for seven-straight months, existing home sales in Alberta rose in both March and April. Housing starts also improved in April after falling to a five-year low in March. Even with the uptick, housing starts over the first four months of 2016 were down 42% from the same period in 2015 and existing home sales were down 10%. The housing markets of Calgary, Edmonton and Wood Buffalo have been especially hard hit. Lingering weakness has weighed on house prices across the province, with the average resale price down 1.3% year-to-date.

Chart 1: Housing market continues to sag

Alberta housing market indicators

Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association

Alberta Business Sector

Business activity faltering

Business output in the province is languishing from the prolonged impact of low oil prices. The value of Alberta exports fell in March to a level not seen in six years. In the first quarter, energy exports were down over 31% and non-energy exports were down almost 10%. Continued lower prices for petroleum products and declining demand for energy-related machinery and equipment dragged manufacturing shipments down over 15%, despite the slight monthly improvement in March. Excluding energy-related products, shipments were still weak, down over 5%. Businesses are expected to reduce spending again this year, as 2016 private sector investment intentions released by Statistics Canada point to a16% decline in investment, following a 27% drop in 2015.

Construction costs ease with lower activity

Tempered construction activity in the province has led to lower construction costs. The price of non-residential building construction began falling in mid-2015. In the first quarter of 2016, it was down 1.7% year-over-year (y/y), coinciding with an almost 7.0% y/y decline in non-residential building construction investment. Residential construction prices have also fallen, with the Apartment Construction Cost Index down 1.9% year-over-year. There is evidence that builders are trimming labour costs, with average weekly earnings in the construction sector in the first quarter down 2.4% y/y.

Oil production growth slows

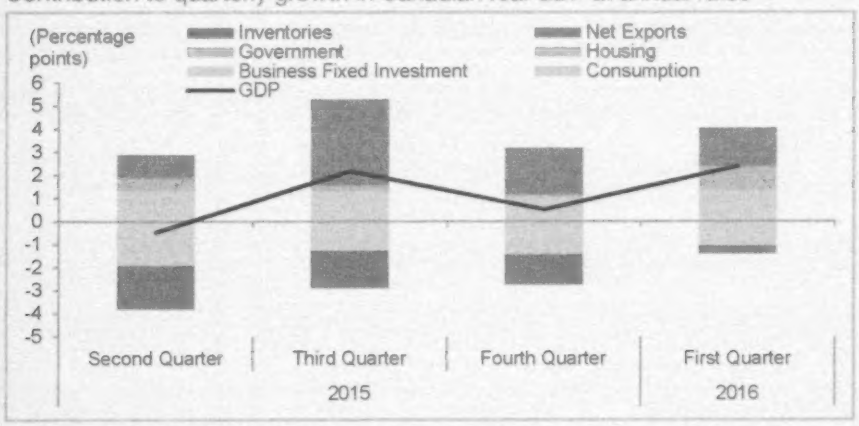
Oil production continued to expand at the beginning of 2016 despite the fall in oil prices, but at a slower rate. Non-conventional production through February grew 4.5% from the same period of 2015. While still substantial, this was down from average annual growth of almost 10 percent over the previous five years. Low prices have caused the number of rigs drilling for oil and gas to fall to the lowest level in over 25-yeas. As a result, conventional oil production fell 10% in 2015 and is down 16% year-to-date.

Global Economy

Modest Canadian growth

The Canadian economy showed a modest improvement to start 2016 after lackluster economic growth in 2015. In the first quarter of 2016, real GDP expanded by 2.4% (annualized). This was the strongest quarterly growth since 2014, supported by an 11% increase in residential investment (Chart 2). Outside of the residential sector, business investment continued to contract due to cutbacks in the energy industry. Investment in non-residential structures fell for the 6th-straight quarter, while investment in machinery and equipment declined for the 5th-straight quarter.

Chart 2: Canadian economy expands moderately after a weak 2015
Contribution to quarterly growth in Canadian real GDP at annual rates



Source: Statistics Canada

Supply outages lift oil prices

Oil prices have increased as supply outages are easing the global oil supply glut. The price of WTI is currently hovering around US$48.00/bbl, a substantial increase from the 12-year low of US$26/bbl in February. Disruptions due to political unrest reduced oil output in Nigeria and Libya, while the Fort McMurray wild fire temporarily took over 1 million bpd of Alberta production offline. The decline in Alberta production caused the WTI-WCS differential to narrow to around US$12.00/bbl in May. US production has fallen by 800,000 barrels per day (bpd) since June 2015, suggesting the oil supply glut may be starting to clear. Global oil inventories remain at record levels, however, and it is unclear how sustainable the recent price gains are.

US real GDP slows in first quarter

The US economy grew by a modest 0.8% (annual rate) in the first quarter. This was the third year in a row that first quarter real GDP growth has been disappointing. Lower business investment in structures, equipment, and inventories all continued to drag on economic growth. Net exports also remained weak because of the residual effect of a stronger US dollar. Consumers contributed to the majority of economic growth, with spending on goods, services, and residential construction all increasing.

Contact

Kailer Mullet 780.427.7391

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Oil sector drags down economic output

Alberta's real GDP by industry declined 4.0% in 2015 (Chart 1), according to preliminary estimates from Statistics Canada. These estimates provide the first official data on provincial GDP for 2015, detailing that Alberta suffered its first contraction since 2009 and the deepest among the provinces (Chart 2).

Oil sector weighs on growth

The decline in oil prices that began in 2014 and carried through 2015 led to dramatic reductions in oil and gas investment in 2015, weighing heavily on Alberta's GDP. Conventional oil activity responded quickly to the price decline, leading to a 38% drop in real GDP for oil and gas extraction support activities. This subsector consists primarily of contract drilling and well maintenance, and was hit hard by the downturn in drilling activity in 2015. Continued growth in non-conventional oil production lifted oil and gas extraction GDP by almost 4.0%. Despite the gain, mining, oil and gas extraction GDP, which includes support activities, fell 4.5%.

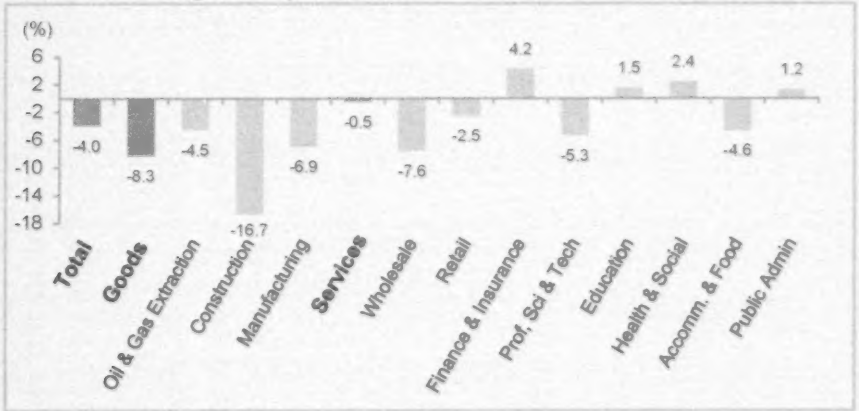
Energy weakness hits related sectors

The fall in oil and gas investment in Alberta had a direct impact on a number of sectors with close ties to the energy industry in 2015. Engineering construction in oil and gas declined 34% and professional, scientific and technical services declined 5.3%. Reduced demand for Alberta machinery, locally and abroad, negatively impacted both manufacturing and wholesale trade. Manufacturing GDP fell 6.9% as machinery (-28%) and fabricated metal (-13%) manufacturing declined. Wholesale trade GDP fell 7.6% as machinery and motor vehicle distribution declined.

Economic downturn broadly felt across goods and services sectors

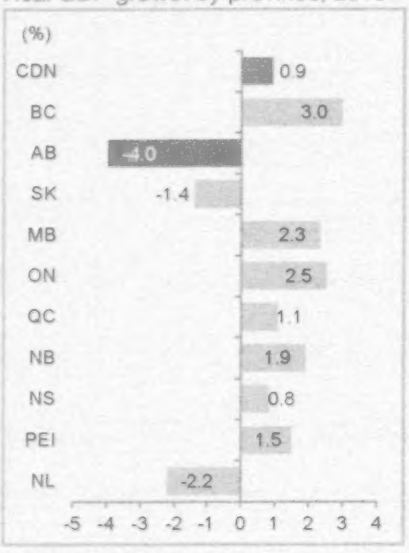
As activity slowed in 2015, weakness spread beyond the energy industry to most other sectors. Construction declined 17% due to the drop in engineering construction, combined with a 2.2% fall in residential construction as housing activity slowed. Energy and construction declines drove an 8.3% fall in goods sector GDP.

Chart 1: Impact of weak oil prices felt across Alberta industries
Alberta real GDP growth by major industries, 2015



Source: Statistics Canada

Chart 2: GDP falls most in Alberta
Real GDP growth by province, 2015



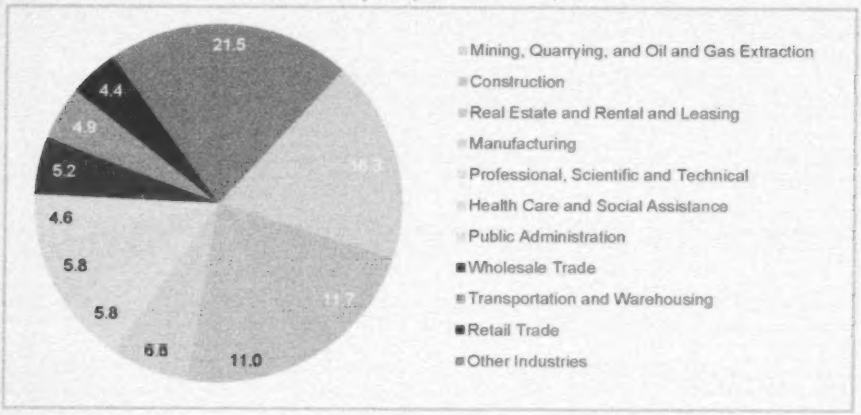
Source: Statistics Canada

What is GDP by Industry?

Gross Domestic Product (GDP) by Industry measures the value of output generated by an industry less the value of intermediate inputs purchased from other industries. GDP is sometimes referred to as "value added" as it captures how much value is being added over and above what is used as input. The sum of each industry's GDP yields the GDP for the overall economy.

Alberta's 2015 provincial accounts estimate of GDP, which breaks down GDP by expenditure category and income type, will be released in November. While this estimate differs slightly from total GDP by Industry, growth in the two series track closely over time.

Chart 3: Oil and gas contribution shrinks
Shares of Alberta nominal GDP by major industries, 2015



Source: Statistics Canada

Table 1: Dramatic change in relative performance of Alberta economy
Alberta real GDP growth by major industries and rank among provinces

	2014		2015	
	AB Growth (%)	Provincial Rank	AB Growth (%)	Provincial Rank
All industries	4.5	1	-4.0	10
Agriculture, forestry, fishing and hunting	-7.4	7	-3.1	10
Mining, oil and gas extraction	8.4	3	-4.5	6
Utilities	4.0	1	-4.4	10
Construction	1.2	5	-16.7	9
Manufacturing	3.2	4	-6.9	10
Wholesale trade	6.9	1	-7.6	10
Retail trade	5.3	1	-2.5	10
Transportation and warehousing	5.3	2	1.4	9
Information and cultural industries	0.5	1	-0.8	3
Finance and insurance	2.4	5	4.2	3
Real estate and rental and leasing	4.5	1	1.8	9
Professional, scientific and technical services	2.0	3	-5.3	10
Management of companies and enterprises	0.9	5	-0.6	8
Administrative and support, waste management and remediation services	4.7	1	0.2	4
Educational services	1.7	1	1.5	2
Health care and social assistance	5.0	1	2.4	1
Arts, entertainment and recreation	3.6	1	3.2	8
Accommodation and food services	2.9	4	-4.6	10
Other services (except public administration)	4.2	1	-0.7	10
Public administration	2.5	1	1.2	3

Source: Statistics Canada

Services were also impacted by declining employment and income, with real GDP in the sector falling 0.5%. A pullback in spending led to a contraction in retail trade, with losses in eight of 12 subsectors. The general slowdown in the oil and gas sector also impacted business travel and hospitality spending, contributing to a 4.6% decline in accommodation and food services. These losses, along with those in wholesale trade, more than offset strong growth in finance and insurance, and public administration related services (Table 1).

Influence of oil sector falls

Along side a contraction in overall GDP, the composition of Alberta's economy shifted in 2015. The decline in oil prices led to a fall in the mining, oil and gas extraction industry's share of the Alberta economy. In current dollars, the industry's share of GDP was 18% in 2015 (Chart 3), down from 27% in 2014, and the lowest share since 1998.

Alberta's economy hardest hit

With the downturn being driven by the oil price rout, Alberta's contraction in 2015 was only shared with the other resource-intensive economies of Newfoundland and Labrador (-2.2%) and Saskatchewan (-1.4%). While Canada's GDP growth slowed from 2.5% in 2014 to 0.9% in 2015, growth elsewhere more than offset declines in the oil-producing provinces. B.C. led all provinces in growth, expanding 3.0%. Ontario grew 2.5% and Manitoba 2.3%.

Relative to other provinces, Alberta's performance in 2015 was in stark contrast to 2014 (Table 1). In 2014, Alberta was among the top three provinces for industry growth in 14 of the 20 industry categories. In contrast, 2015 saw Alberta rank in the bottom three provinces for industry growth in 14 categories. Nevertheless, Alberta's real GDP per capita remains the highest in the country at $70,224, 53% above the national figure and 36% above the next highest province (Saskatchewan).

Contact

Wade Tymchak 780.415.0825